Quarterly Production Report

March 2020

Investor and Analyst Call transcript

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30 April 2020

Company: Fortescue Metals Group Ltd

Title: March 2020 Quarterly Production Report

Date: 30 April, 2020

Time: 1:00pm

Start of Transcript

Operator: Thank you for standing by. Welcome to the Fortescue Metals Group March 2020 Quarterly Production Report. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over Ms Elizabeth Gaines, CEO. Please go ahead.

Elizabeth Gaines: Thanks [Ashleigh]. Good morning or afternoon everyone. Welcome to Fortescue's March 2020 Quarterly Production Report. Joining me today in Perth is Ian Wells, Chief Financial Officer and Greg Lilleyman, Chief Operating Officer. Many of you who would have participated in our calls before would know that we're normally joined by our CEO for a day. But to ensure that we could follow appropriate physical distancing and while still providing a valuable experience for all involved, we have decided to postpone the CEO for a day for Q3.

But we're certainly looking forward to our next aspiring leader joining us at a future quarterly. With that in mind and before I discuss our results, I would like to make a few comments about COVID-19 which as we all know is an unprecedented health and economic crisis that has impacted our homes, our workplaces and our communities. Who would have thought that at the beginning of this calendar year we would have experienced this global pandemic? I'm certainly incredibly proud of our entire team who in true Fortescue sprit have adapted to the significant changes we've asked of them as we have proactively implemented and expanded a range of measures to contain the spread of COVID-19.

We've actually been dealing with the impact of COVID-19 long before the first case was identified in Australia given the impact on our Chinese based colleagues. Our industry is in a privileged position to be operating. We take that responsibility very seriously. Measures such as working from home, additional charter flights, temperature and health testing, through to closing gyms and licenced areas across our villages have all been implemented to keep our people and the community safe.

Perhaps the biggest adjustment has seen the temporary change to our site operational rosters. Fortescue was the first iron ore producer to extend our roster. That's reduced people movement by about 40%. Whilst we've had a number of team members present with symptoms, I'm really pleased to say that we've had no cases of COVID-19 at any of our operational sites. Of course, we're committed to supporting our communities during and after this crisis. We've made donations to the Royal Flying Doctor Service, Food Bank and Lifeline as well as distributing over 1300 care packages to Aboriginal communities in the Pilbara.

Fortescue also actively supported the Minderoo Foundation initiative to procure and distribute $160 million of critical medical supplies to the West Australian health care sector. The expertise of our Chinese procurement team was critical to the success of this initiative. Importantly, we recognise our role in reliably delivering iron ore shipments to support the flow of taxes and royalties at this time of critical national need.

So that brings me to our Q3 results. As you can see from today's report the Fortescue team has again achieved outstanding results for the quarter building on the momentum of our record FY20 first half. This result, including our improved safety and cost performance, underpins the upgrade to our shipping guidance for FY20. A key highlight for the quarter was our safety achievement which resulted in a total recordable injury frequency rate of 2.5 on a rolling 12 month basis. That's an improvement from 2.8 at June 2019.

COVID-19 and the measures we've implemented has also been a key safety focus for this quarter. Critically, the team have worked hard to maintain their focus on the task at hand to ensure a safe work environment. The fact that our TRIFR has improved this financial year is a testament to the hard work and commitment of everyone at Fortescue.

In terms of our operating performance, our mining, processing, rail and shipping teams have worked together to achieve a record result. We shipped 42.3 million tonnes in the quarter. That's 10% higher than Q3 FY19. That's also despite weather disruptions and the introduction of COVID-19 measures. Our year to date shipments are a record 130.9 million tonnes.

C1 costs were $13.27 per wet metric tonne for the quarter. That's 2% lower than Q3 FY19 costs of $13.51 per wet metric tonne. Robust demand for Fortescue's products delivered average revenue for the quarter of $73 per dry metric tonne.

Ian will talk to the balance sheet but I did want to highlight that cash on hand was $4.2 billion at 31 March, 2020 and for the first time since the Company commenced development, we are in a net cash position of $100 million at 31 March, 2020 noting that the cash balance included cash reserves for the payment of the $1.6 billion interim dividend on 6 April, 2020.

So just touching on iron ore projects, our iron ore growth projects Eliwana and Iron Bridge are both progressing on schedule and budget. Greg will provide a more detailed update, but both Eliwana and Iron Bridge achieved important key project milestones in the quarter. Site works for Eliwana are ramping up with construction peak still expected around mid-year. Detailed engineering for Iron Bridge has passed the halfway mark.

We're working closely with our contractors and suppliers to mitigate any impact of COVID-19 on the project schedule. We've revised our capital expenditure guidance for FY20 to a range of $2 billion to $2.2 billion reflecting the expected timing of cash outflows.

On the market, when we last spoke at the end of January it was unclear what impact the evolving coronavirus situation in China would have on the demand for iron ore. In fact, our iron ore shipments have continued as planned during this period. We've seen strong ongoing demand for our products as Chinese crude steel production remained resilient in the first quarter of calendar year 2020 reaching 234.5 million tonnes. That's 1.2% higher year-on-year.

We anticipate a steady recovery in Chinese economic activity and remain confident in the ongoing commitment to urbanisation and development which will continue to underpin long term iron ore demand and support WA and Australia's economic recovery post COVID-19. However, as we are all well aware the global economic outlook does remain uncertain given the impact of the virus on the other major economies of the world including the US, the UK and Europe.

On exploration, our total exploration expenditure for Q3 was $18 million. It is anticipated that full year expenditure will be lower than earlier expectations due to COVID-19 impacts. While iron ore exploration in the Pilbara region is ongoing, all field exploration activities in the Paterson, Rudall and Goldfields regions of Western Australia, together with activities in New South Wales and South Australia, have been temporarily suspended.

Our exploration and field activities in Ecuador and Argentina have also been temporarily suspended. For the team in Argentina that means the drilling season has finished earlier than planned. However, the team are very busy assessing the results of our previous drilling activities. There are various geological studies ongoing.

I think on that note I'll hand over to Greg for an update on safety, operations and [products]. Greg.

Greg Lilleyman: Thanks Elizabeth. Good morning or afternoon everyone. I'm really pleased to be able to say our operations continue to run extremely well. On safety, our good performance year to date continues. We've really doubled down on both our fatality risk prevention program and our exposure reduction program. First of these programs seeks to engineer out the known industry fatal risks or those things that can kill you such as working from heights or vehicle interactions and electrical hazards.

The second program is much more focused on the individual and how an individual worker can reduce their exposure to potential hazards through their own personal actions. So our improved total recordable injury frequency rate is maintained at 2.5. We're working hard of course to continue to bring that down further.

On the production front, well it's always good to report record performance which is what we do again today of course, which with the third quarter shipments at 42.3 million tonnes bring the financial year to date to a record 130.9 million tonnes shipped. You will note if you look at our release in the table on page two that our overburdened removal rose during the quarter. That was a deliberate focus on waste movement during the wet season to rebalance our stock levels across the value chain. Our full year strip ratio is still expected to remain at 1.5.

Our ore processing facilities continue to perform exceptionally well with 42.4 million tonnes processed essentially in line with our shipments. Reliability right across the value chain has continued to improve, delivering solid and consistent operational performance. So with the record year to date shipments and that solid ongoing operational performance we've now updated our guidance to the range of 175 million tonnes to 177 million tonne shipped for this year.

I'll let Ian cover the detail on costs but as Elizabeth already mentioned we're tracking very well against our guidance of $12.75 to $13.25 per wet metric tonne.

On to the markets - so first just let me say Fortescue has been able to continue to reliably deliver to all of our customers across the quarter with no impact on sales, volumes or timing due to the COVID19 pandemic. As we look to China, we’ve seen a continued drawdown of those steel inventories by both the traders and the mills as construction and economic activity picks back up. This is despite very strong crude steel production levels at 234.5 million tonnes for the quarter.

So demand for iron ore has been very strong as a result and when we couple that with some operational disruptions to other producers in the Pilbara and Brazil limiting supply to some extent, we saw a draw-down of iron ore stocks at some of the Chinese ports by about 10 million tonnes, supporting healthy prices and demand for our products.

We averaged approximately US$73 per dry metric tonne realised during the quarter, driven by the great work done by the Fortescue sales and marketing team over the last year or so and supported by our improved product strategy. We also note here that we have now sold just over 5 million tonnes through our Chinese trading entity, Fortescue Trading Shanghai from Chinese ports in RMB-denominated sales in just on 12 months.

Now, some comments on the major growth projects. First of all, Eliwana. We achieved a number of key milestones recently with completion of the most difficult first stage of the rail which makes up 20 kilometres of the length but 25% of the total earthworks volume through some pretty tricky country. It’s now ready for track laying. Commencement of the steel erection on site at the oil processing facility and we also completed the village and the aerodrome during the quarter.

We made some adjustments to rosters with the construction workforce to allow for a steady build-up of some east coast based contractors and we’re well and truly into full on construction mode across the project now.

The incurred spending timing is tracking a little behind plan, making overall schedule tight but achievable for the first ore on train in December this year.

On Iron Bridge, we made very good progress on the detailed engineering and we've secured all major long lead process equipment. We progressed site access road and village earthworks and we did the first blast at the oil processing facility site ahead of the start of bulk earthworks there.

So Iron Bridge is progressing well with no known material deviations seen in engineering, costs or schedule to date. So I'm really pleased with how both of our major new mine projects are progressing at this stage. With that, it's back to you, Elizabeth.

Elizabeth Gaines: Thanks, Greg. I now hand over to Ian for finance update. Ian.

Ian Wells: Thanks, Elizabeth and hi, everyone. So, on the financial results, as you've heard from both Greg and Elizabeth, the March 2020 reporting period was another solid quarter for Fortescue, focussed on the things that we can control and continuing to deliver on our integrated operations and marketing strategy.

Firstly, on revenue. The realised price for the quarter is US$73 represented an 82% realisation into average indexed price of US$89, which both Greg and Elizabeth referred to. So that realised price was affected by the mark-to-market impact of a lower closing Platts price of US$84 at the end of March but, if you compare that with US$92 at the December 31, 2019, closing price.

So, fiscal year to date, that's at the end of the third quarter, realised price is 84% of the Platts index and so now, looking back over the last five quarters, our realised prices as a percentage of the index price have been consistently around 85%.

Moving to costs, A-dollar cash costs quarter on quarter were reflective of the seasonally lower production period, higher strip ratios that Greg spoke about and this was offset in US dollar terms by a lower Aussie dollar, down quarter on quarter. The benefits from the lower oil price that we've seen in the market are expected to flow through our C1 costs through quarter four.

Both the Aussie dollar currency and lower oil price assumptions are reflected in our full year guidance and I'd just note that our fiscal year to date C1 costs are US$12.90 per wet metric tonne.

So, moving to the balance sheet and cash. Cash on hand, as you heard, was US$4.2 billion. That compares to US$3.3. billion at the end of the December quarter and net cash of US$100 million. This compares to net debt of US$700 million at December and $2.9 billion this time last year. The US$900 million net increase in cash quarter-on-quarter reflects our continued strong free cashflow generation and also included US$414 million invested in sustaining capital exploration and growth CapEx.

Just on working capital movements, there was really nothing abnormal in the quarter. Included US$131 million of pre-payment amortisation and just as a reminder, those prepayments were linked to marketing agreements and the pre-payment total was around about US$800 million through FY17 and FY18. So that pre-payment balance has progressively been amortising at about US$500 million per annum. It's now down to less than US$100 million at 31 March and will be zero by June 2020.

Gross debt at 31 March remained at US$4 billion and in April 2020, we drew our US$1 billion revolving credit facility, further strengthening a [unclear] liquidity position. The drawing for the RCF and adding that cash to the balance sheet was done proactively, essentially to mitigate potential financial market volatility. Our balance sheet, including the revolving credit facility is structured on low cost flexible terms, providing repayment options and also includes no financial maintenance covenants.

Moving to the capital allocation and firstly CapEx. So we're seeing sustaining operations development in Queens Hub, running to expectations at around 75% full year guidance at the end of the March quarter.

As you heard, Eliwana and Iron Bridge are on target from a contractual commitment's basis, the timing of incurred spend and cashflows contributing to the revision to full year capital guidance. For capital guidance, really, the key change is Eliwana, which is revised for US$550 to US$650 million from the previously advised range of US$700 to US$800. Importantly, as Greg also mentioned, the project to complete on both Eliwana and Iron Bridge projects remain on target.

So on FY20 capital guidance on a group consolidated basis, we've amended to US$2 to US$2.2 billion, previously US$2.4 and I thought I'd just step you through the detail. So, we've got Eliwana at US$550 to US$650. Iron Bridge at US$300 to US$400 with range unchanged, however, we are expecting to be at the lower end of that range. Exploration at US$120 million and combined sustaining operations, development, Queens Hub and the power projects is unchanged. That totals to just over US$1 billion, US$1 billion for FY20.

So finally, on capital allocation, I just like to confirm Fortescue's dividend policy remains unchanged and that's a payout ratio of 50% to 80% of full year net profit after tax.

In closing, another consistent performance for the quarter as we execute our integrated operations and marketing strategy, remaining focussed on the things we can control and that's safety, production and cost. A strong balance sheet, liquidity position and disciplined approach to both costs and capital management, positions us well during this period of uncertainty as we continue reinvesting in the business, delivering returns to shareholders and executing our growth projects. Elizabeth, back to you.

Elizabeth Gaines: Thanks, Ian and whilst this has been a period of extraordinary disruption, there have been many milestones that we can be proud of. During the quarter, we celebrated the 900th Aboriginal person offered full time employment under our Vocational Training and Employment Centre program, or VTEC.

VTEC is based on that simple but very compelling idea that after successfully completing training, you're guaranteed a job. I'd like to congratulate the latest cohort of 17 graduates who have secured full time employment at our Solomon, Cloudbreak and Port operations as well as every person who has worked tirelessly over the last 14 years to support all of our VTEC graduates.

In closing, we've built on our moment from the first half of the year and our record shipments reflect our strong operating performance together with a resilient demand for iron ore. Our balance sheet has never been in a stronger position and this, together with our operational excellence underpins an upgrade to our guidance for shipments in the range of 175 to 177 million tonnes. C1 cost guidance is maintained at a range of US$12.75 to US$13.25 per wet metric tonne.

We remain committed to generating strong cashflows, investing in growth and delivering returns to our shareholders. As always and especially during this period of uncertainty, I'd like to thank and congratulate all of our employees, our contractors and suppliers for their great contributions during this quarter. Their approach to the measures introduced in response to COVID-19 has been truly outstanding and out team members know that by continuing to safely operate, we are making a substantial contribution to the economy.

Thank you and I'll hand back to Ashleigh to facilitate Q&A.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. We ask that you keep to two questions per person. Thank you.

Your first question comes from Hayden Bairstow with Macquarie. Please go ahead.

Hayden Bairstow: (Macquarie, Analyst) Hi, Elizabeth and team. Just a couple from me. Firstly, just on Port Hedland port, obviously there's been a bit of news this week on BHP and looking at increasing their export license, effectively and then can you just remind us where yours is at and whether you're thinking about - do all those metrics need to be re-cut based on what the throughput rates at Port Hedland have actually been?

Then just on Iron Bridge, how do we think about that big debt spike - or the CapEx spike into 2021 now? Do we need to start paring that back and pushing a bit into '22? Will there be debt associated with that, or are you basically just using the existing facilities to pay for your share? Thanks.

Elizabeth Gaines: Thanks, Hayden. Maybe I'll start with the port capacity. Look, we are also looking to increase our license capacity. We've applied to the WA Department of Water and Environmental Regulations to increase the license capacity from 175 million tonnes to 210 million tonnes per annum and that's really to facilitate Iron Bridge, obviously, with the additional incremental volumes.

So we're very confident that the port can deal with that capacity and we're going through that process of application. So yes, remain confident we've got the infrastructure in place and this really is to deal with the Iron Bridge magnetite throughput. [Unclear] Iron Bridge, do you want to touch on…

Ian Wells: Yes, on the CapEx profile, I guess, Hayden, the change with Eliwana moves obviously into FY21 and at this point in time, there's not really more that we can say about FY21, other than we'll give guidance specifically on that as we normally would in August.

In terms of the debt funding of Iron Bridge, is that is still our intention. Obviously, having the certainty of cash on the balance sheet and therefore why we drew the revolver, gives us certainty on that cashflow and that's part of an overall capital management solution and really, we've worked very hard on our balance sheet to get to where we are and the working capital facility was an important part of it.

Hayden Bairstow: (Macquarie, Analyst) Okay, great. Thanks for that. So your gross debt is now US$5 billion, is that right?

Ian Wells: Yes, without - the net debt is still the same. It's all cash on hand.

Hayden Bairstow: (Macquarie, Analyst) Thanks, guys.

Operator: Your next question comes from Paul Young with Goldman Sachs. Please go ahead.

Paul Young: (Goldman Sachs, Analyst) Yes, hi Elizabeth, Greg and Ian. First question is on your growth CapEx and around the Aussie dollar percentage exposure. If Aussie dollar stays at US$0.65, could we see any benefits to CapEx? That's the first question, thanks.

Elizabeth Gaines: Well I think importantly, we've reiterated our guidance on those projects in US dollars so US$1.275 billion for Eliwana and US$2.6 billion for Iron Bridge and where we've seen some opportunity to still add additional value to those projects, we look to do that. You might want to comment on the exposure in terms of Aussie dollar, Ian?

Ian Wells: Yes, it's hard to be specific, Paul, because we haven't actually got into that detail and articulated that to the market but if you took, as a rule of thumb, that our operating costs are 70% to 80%, then we're really doing the same sort of stuff. We're just doing it in a construction sense rather than an operating sense. So that will give you a sense of the sensitivity and yes, if the Aussie dollar stays lower, well you can do the math the same as we can.

Elizabeth Gaines: We are looking to reinvest that benefit. So, one example is that we made the decision to -and the aerodrome to a full airport at Eliwana, which we think is a - it's the right decision for the long term from the original scope, which was more of an emergency airstrip.

Paul Young: (Goldman Sachs, Analyst): And also you've got no contingency in these budgets or very little.

Ian Wells: Well, that's right. And so therefore that's - we're guiding to the full year - the project to complete in US dollar terms. I think that you should take that for what we've confirmed today.

Paul Young: (Goldman Sachs, Analyst) Okay, great. Next question is around the increase in guidance on shipments up to 177 million tonnes. That's a huge, obviously increase on last year, fiscal year, which was impacted at the end of 2018 by the slowdown in sales around the first heating season in China, but 177 is sort of getting to a level where we were talking about five years ago on price [unclear] about creeping from that 170 mark up to the 180. So maybe it's a question for Greg, but just curious about have you tested the system and the bottlenecks being either [unclear] at the 180, into theoretical maximum capacity for three [car numbers] at 180 and then also the other bottlenecks being the rail load outs at the sites, each of the sites. Could we - so, again, I guess the bottom line is - the question I'm asking is can we potentially squeeze the hematite operations beyond the 180?

Greg Lilleyman: Paul, I think - I mean, you've heard me say a number of times over the last quarters that historically our OPFs have been the bottleneck and we've been working hard on the reliability and the throughput at our [OPFs] and they've been lifting to the level that we've been pretty comfortable with. And that's been pushing, therefore the bottleneck into the rail and we've seen more recently the rail has benefited from the early delivery of all cars and locos as part of the Eliwana project. So, we're able to make the most of that in the interim until Eliwana comes online, remembering Eliwana is an additional, 140 kilometre length of rail that we need to maintain the capacity.

So, look, we're pushing the rail performance and it's lifting to the challenge and through the port itself, we haven't seen any bottleneck in terms of the port facilities itself and dumpers and those sorts of things. So, we're pretty balanced but as we see the OPFs lift and the rail lift, we're making the most of that opportunity.

Paul Young: (Goldman Sachs, Analyst) Okay, thanks, Greg. That's useful.

Operator: Your next question comes from James Redfern with Bank of America Securities. Please go ahead.

James Redfern: (Bank of America Securities, Analyst) Hi Elizabeth and the team, just a couple of questions from me please. First one is just on the C1 cost guidance. Just looking - if you think that [the strip ratio] falling to 1.2 in the June quarter from 1.9 in the March quarter, it's obviously a positive for cost and then diesel costs have also come down. I'm just wondering why the C1 cost guidance wasn't lowered given those two factors or whether I'm missing something else? And I just had another follow on question after that. Thank you.

Elizabeth Gaines: Yes, so I don't think you're missing anything in there, James, but let's not forget we lowered our C1 cost guidance late January, so we were already seeing the Aussie dollar benefits then as well. So, we were originally USD13.00 to USD13.50. So, we've changed that to USD12.75 to USD13.25.

It is a range where obviously there's some costs that we're incurring as a result of the COVID-19 measures. They are not material, but they're reflected in that guidance as well. But you're right, we're very confident in that range, but made the decision that there's lots of factors that can influence it. So, the range that we lowered at the end of January, we think is still appropriate.

James Redfern: (Bank of America Securities, Analyst) Yes, okay, good. Thank you. And the second question, it was just really on the outlook for Chinese steel demand and iron ore, we've seen steel production up 1.2% year-on-year in the March quarter and just based on discussions with your customers and other groups, how are you thinking about the steel production forecast for China for 2020, if you're prepared to give a forecast? Thank you.

Elizabeth Gaines: Look, I think it is difficult to forecast steel production. When we were - Greg and I were there the beginning of this calendar year, I think the industry had an expectation of a range of 2% to 4% growth year-on-year given off nearly a billion tonnes in calendar year '19. It was up 1.2% in the first quarter. That might indicate the lower end of that range, maybe 2%, but very difficult to really give a firm view on that. And we don't know what other stimulus measures might be put in place that might impact that further.

So, importantly for us though, we continue to see very strong demand for iron ore.

James Redfern: (Bank of America Securities, Analyst) Okay.

Greg Lilleyman: Steel demand for long products for construction, et cetera. It still seems to be very strong and the drawdown of steel stocks supports that. Flat products are not doing as strongly but certainly at this point in time we've been through the period that we would normally see that steel stock drawdown and that's been happening.

And iron ore stocks have been drawing down during the same period. So, ongoing strength is still there and still evident today. That's for sure.

James Redfern: (Bank of America Securities, Analyst) Okay Greg, thank you very much. Thank you.

Operator: Your next question comes from Lyndon Fagan with JP Morgan. Please go ahead.

Lyndon Fagan: (JP Morgan, Analyst) Thanks very much. Look, the first one was just on the strip ratio. Just wondering if you can shed some colour on what's driving the variability quarter to quarter and then how we should think about it over the coming years?

Greg Lilleyman: Lyndon, what we try to do is if you go back a quarter and you see a heavier focus on ore movements that's in advance of wet season, preparing ourselves with healthy mine stocks, healthy stocks at [ROM] preparing ourselves so that as the wet season come, we're not so heavily reliant on having to feed out of the pit such that during the wet season, now that we've gone through, we can focus more heavily on the waste movement. We're not so heavily reliant on the movement out of the pit. So it's a strategy that we've adopted that has enabled us now to sit here and say we've had record performance out of the quarter and record performance year to date.

So that's the way we like to try to run it during a normal year. It doesn't change anything for the overall average for the year. It's more a matter of sequencing through the pits.

Lyndon Fagan: (JP Morgan, Analyst) Thanks. And subsequent years are we more or less at this level still?

Greg Lilleyman: We're not going to sit here and give guidance on subsequent years' strip ratio at this point in time but we have in the past indicated there's nothing that you should read into this quarter's strip ratio, I guess to guide anything on future years other than that we will likely look to in advance of wet season, make sure we're healthy in stocks and make sure we're not so heavily reliant on running directly out of the pit during wet season, in subsequent years.

Lyndon Fagan: (JP Morgan, Analyst) Right and I guess the other question is on price realisation. Can you make any comments around why it perhaps isn't better given how low China steel margins are? 17% is still a good level, but I'm just interested in why it isn't back at the historic range given steel mill profitability over there at perhaps historical lows again.

Greg Lilleyman: Yes, look, my only comments would be, there's certainly other sources of low grade, lower grade material that's been coming in. Some of our competitors challenges that they've had has meant that they've been putting more lower grade material than otherwise they would have done in the past. And there's certainly been some other material coming in from outside of Australia at the lower grade end of the spectrum.

So there's competition for products as you'd expect in any market. We have seen good, healthy demand for our products and we've certainly seen that reflected in the way that customers have been securing our products. Why aren't prices healthier? Well, that's the way the market rolls sometimes and we've been pretty comfortable with the way that the sales and marketing team have been working those products through particularly into China and less so outside of China as well.

Elizabeth Gaines: Yes, and I'd only add that I think the sales and marketing team have been very responsive to that sort of supply and demand and are looking to adjust accordingly.

Lyndon Fagan: (JP Morgan, Analyst) And so, is SP10 taking away a bit of market share and I guess is that likely to be an ongoing issue do you think?

Greg Lilleyman: Well, it hasn't been taking away market share because we haven't lost any market share. We've sold every tonne. And in fact, sold record amounts as we've just said. It doesn't mean that there aren't competing products in the market that weren't there a year ago or two years ago, et cetera. So, it's a part of the ongoing evolution of the market Lyndon. I don't sit here with any concern or worries about other products that are entering the market put it that way. And we've got good established long term contracts, long term relationships with customers that purchase our products because they see value in the products, and we price them accordingly with those customers.

Elizabeth Gaines: We've been maintaining that average price realisation at around those levels now for five quarters. So clearly there's been no impact of new products or increased competition. But there's been a good maintenance around that 82%, 83%, 84% level.

Operator: Your next question comes from Peter O'Connell with Shaw and Partners. Please go ahead.

Peter O'Connell: (Shaw and Partners, Analyst) Good afternoon Elizabeth and team. One observation and two question. An observation firstly, with regard to the stripping ratio comment from before, would you be able to call out that to us in the quarter ahead? I'm surprised you didn't at the last call that we had in January. And just to help us muppets get it right.

And the two questions I have. Firstly, on the Chinese steel market, you've talked a lot about the domestic markets. I'm sure you're looking very close at the export side of it as well. It seems to be where the biggest delta could be for tonnes not being quite as high as they might have been. How you seeing what China is doing on exports re or versus domestic and is that a cause for alarm or just further caution? Then I've got to follow up.

Elizabeth Gaines: I think on steel exports, the volume of steel that's exported is very low. I mean most of that steel is consumed domestically. So, we're not sitting here worried about the level of exports from China. I think that that continued domestic consumption and also the urbanisation rate and the journey that China's still on I think really underpins that strength and demand for iron ore.

And as we mentioned on the call, we've seen [core] inventories have come down from about 127 million tonnes at the end of December down to about 116 million tonnes here to date. So, iron ore is being consumed and steel production grew by about 1.2%. So, I don't think we're sitting here sweating on steel exports, given the high level of domestic consumption.

Greg Lilleyman: Sorry, your question of…

Elizabeth Gaines: Strip ratio and visibility…

Greg Lilleyman: …strip ratio, I'm not sure we're going to be giving guidance on [unclear].

Elizabeth Gaines: …quarterly basis, no.

Greg Lilleyman: …on a quarterly basis. I did make notes previously that we built stocks in advance of the wet season in the last quarterly [unclear]. Check your notes then Pete because we did flag that [unclear]. I guess the message is we want to make sure we're healthy with stocks near the crushers, et cetera, near the plant leading into a wet season. And that's what we've done this year.

Peter O'Connell: (Shaw and Partners, Analyst) Okay, I appreciate that. That's the problem with juggling too many calls in the one day. The second question was on Port Hedland. Going back to the very first question and port capacity. Is the potential for you to upscale and others, is it about shoehorning more tonnes down the channel or is it about dust? What's the bigger driver of that number increasing for you and others in the port?

Elizabeth Gaines: Well, the biggest challenge for us Peter is the fact we're adding 22 million tonnes of high grade magnetite concentrate. And currently we've got a licence for 175 million tonnes on the calendar year basis. And we've already guided this year towards the top of that. So, it's for the calendar year basis not a financial year basis. And that's just with hematite. So, it was always part of our plans with the Iron Bridge project that we would seek to increase our licence capacity. So, nothing to do with dust for us. Our operations are certainly located a lot further away than others. All of the measures that we've put in place across our infrastructure, and also with Iron Bridge and some of the amendments we're making to our port infrastructure to deal with the high-grade magnetite, are all to the highest levels of dust suppression. So we're certainly very focused on - we know we're not a big contributor to what has been a historical issue in the town. Our existing infrastructure, and any new infrastructure, will be at the highest level of dust suppression.

Peter O'Connell: (Shaw and Partners, Analyst) Thank you very much.

Operator: Your next question comes from Glen Lawcock with UBS. Please go ahead.

Glen Lawcock: (UBS, Analyst) Good afternoon, Elizabeth. Look, we've sort of talked around these questions already, but I just wanted to ask a little bit about the product. It is quite impressive that you've had about a 15% average discount for the last few quarters. Because if you look at the low grade, three quarters ago it was a 12.5% discount and a quarter just gone it was 25%. I'm just wondering if you've got any thoughts on what's going on? Because normally with low margins on steel, the discount closes. This time the discount's been progressively widening, yet there's been no impact at all on your product. So just why the disconnect perhaps? That's the first one, thanks.

Elizabeth Gaines: Well, Greg might want to elaborate. I'm not sure our products are that same benchmark that you're looking at, Glen. So, I'm not sure you're comparing like for like.

Greg Lilleyman: I think that the issue, Glen, is what are you looking at when you quote those discounts? If you're looking at a 58 index, then you're looking at the wrong thing because it's not reflective of our products and it's not reflective of the market for 58% products that we sell. There's not enough liquidity in that to be reflective at all. So, what you might be missing is looking at the wrong index.

We price ours against the 62 index and we move with it. Therefore, as you say, normally as steel margins are narrowing, customers will look more to their input costs than the overall output. That isn't always exactly the case, depending on where they are, the total output going into that period, but that's normally the case and certainly has been. So we've been pretty comfortable with the way we've been pricing given where the market is, for sure.

Glen Lawcock: (UBS, Analyst) But it just seems like you do sell a sub-62 product and those discounts have been widening and you haven't had any, nothing at all. So, it seems like even if you disregard that index as representative, it just shows you low quality has been getting bigger discounts but there's been no change. Is that just a case of all your marketing benefit?

Greg Lilleyman: Well, I'm not sure again what other…

Elizabeth Gaines: I think it's just other factors.

Greg Lilleyman: …products you're talking about that are discounting.

Elizabeth Gaines: …[unclear] phosphorous and alumina. I mean it's not just the iron grade.

Glen Lawcock: (UBS, Analyst) Yes, okay. Then the second one, just looking back at the port entitlement, you said obviously for calendar year 1, and if you continue to go the way you are, you're going to go through 175. So just two parts to it. When did you put the application in? I mean the last application, obviously by one of your peers who has more dust issues, took close to two years to get approved. Do you think you can get approved by the end of the calendar year, so you don't have any impact on your business? As part of your application, are you looking at more A and B class permits, or are you just going to use [D] class and just take space available [on the tides]? Thanks.

Elizabeth Gaines: Look, I think there's a whole range of different factors in terms of the different class, so I probably won't comment on that. But our application has been in for a number of months now and we're certainly working through our planning to make sure that we're working closely with the regulators. Let's not forget I think it's in everyone's interest, including the state's interests. They're very supportive of our Iron Bridge magnetite project and also overall the volumes and royalties to the state. So, there's good engagement. We're confident in our ability to continue to shift at the levels that we've stated.

Glen Lawcock: (UBS, Analyst) Okay, thanks.

Operator: Your next question comes from the Rahul Anund with Morgan Stanley. Please go ahead.

Rahul Anund: (Morgan Stanley, Analyst) Hi, Elizabeth, Greg and Ian, thanks for the opportunity. Look, most of the questions that I had have been answered, but I had a couple around strategy and costs. So, I'll go for the strategy one first. In terms of new opportunities, most of them are early stage at this point in time, but would you be interested in flexing your balance sheet perhaps to look at opportunities that are more brownfield than currently producing assets? If yes, what commodities would you be focused on?

Elizabeth Gaines: Well, I don't think you'd expect us to comment on any of those sorts of opportunities, Rahul. I mean as you know, we've been looking at exploration as the key driver. We always say never say never. If we thought there was something that was absolutely compelling, it's something that we might consider, but there's nothing to report on that currently.

But I think, on commodities, we've been very clear on diversification, whether that's greenfield or brownfield. It's been around those materials that will support the growth in EVs and battery materials more broadly. So, as you know, we've been drilling for copper in Ecuador and Argentina. We've had some interest in some lithium tenements in Portugal that are still progressing. But nothing's changed in that regard. Then we've also got our hydrogen opportunities that we're continuing to develop as well. So, we're still very focused on growth and diversification.

Rahul Anund: (Morgan Stanley, Analyst) Okay, perfect. The second one is around the COVID impacts. So, I just wanted to understand if you're able to provide some kind of visibility around the efficiency losses and perhaps the additional costs, in terms of social distancing, when it comes to having different rosters and obviously making arrangements for transport?

Elizabeth Gaines: Look, I think in efficiency we've demonstrated that there's been no impact on efficiency. We've seen that some of our sites actually, since measures were introduced, that they've had some fantastic operating days. I think everyone's very focused on safety, efficiency, doing the task at hand. So, no impact on efficiency.

Look, there are some costs that we're incurring. Less to do with the rosters. Two weeks on, one week off, four weeks on, two weeks off, it's actually the same number of hours. But because we're moving less people, we've put on additional charter flights, but overall our flight costs aren't really increasing. So, there are some costs. They're not material and they're already reflected in our guidance for C1 costs.

Rahul Anund: (Morgan Stanley, Analyst) Okay, understood, that's helpful. Thank you. I'll pass it on.

Operator: Your next question comes from Paul McTaggart with Citigroup. Please go ahead.

Paul McTaggart: (Citigroup, Analyst) Good afternoon. Just a clarification. So, revenue realisation was 82%. So that includes the impact of price realisation adjustments. In the release it says, against your contractual realisation, price realisation has an average of 83% of the index. You mentioned Ian 85%, but I just missed that because I was too busy writing. So, what was the 85%?

Ian Wells: So, the 85%, Paul, is if you go have a look back over the last five quarters, we've been in and around 85%. I mean at one stage we were up at 90% because that had a positive mark-to-market. So [that point was] [inaudible].

Elizabeth Gaines: An average basically, yes.

Paul McTaggart: (Citigroup, Analyst) Again thanks. Can I also confirm, the revolver now is fully drawn, isn't it?

Ian Wells: Yes, that's right.

Paul McTaggart: (Citigroup, Analyst) Great, thank you.

Operator: Your next question comes from [John Tumazos], a Private Investor. Please go ahead.

John Tumazos: (Private Investor) Thank you. When you get to 210 million tonnes, would that be from your current five berths averaging 42 million tonnes per berth?

Elizabeth Gaines: Less about averaging. It depends on how we're loading the magnetite concentrate, but it will be from our existing infrastructure, yes.

John Tumazos: (Private Investor) So then you'll be leading the productivity, in terms of tonnes per berth and port management, well ahead of any of your competitors?

Elizabeth Gaines: Well, we have three ship loaders [whilst] we have five berths. But, look, we've always prided ourselves on the efficiency of our port operations and infrastructure, so absolutely.

Greg Lilleyman: I think, John, just another comment. I mean the 210 million is the licence application. Just like we've had with 175 of our licence, to date we haven't actually shipped 175 in a year either. So, there's some flexibility up your sleeve for improving over time. So, it's not as though we're expecting to be delivering 210 million tonnes next year or something like that, or immediately upon starting Iron Bridge, but it gives us the ability to do so over time.

John Tumazos: (Private Investor) So BHP has nine berths and is just around 30 million tonnes per berth currently, maybe 31. So, your productivity would imply that the other operators ought to be able to go from 30 million to 40 million tonnes per berth and that wouldn't create too much congestion in terms of snaking in and out of the harbour and port management?

Elizabeth Gaines: I'm not sure it's like for like, John. I mean we've got much newer infrastructure. Some of those other berths have been around for longer. I don't think you can take different class [of vessels], for example. So, I'm not sure you can make that same assumption in terms of their capacity versus ours.

John Tumazos: (Private Investor) Thank you very much.

Operator: Your next question comes from Bernard Gresser with Infinitas Asset Management. Please go ahead.

Bernard Gresser: (Infinitas Asset Management, Analyst) Yes, hi, everybody. Just a question regarding the royalty regime. There's a little bit of chatter the last couple of days - it's a different commodity in a different state - regarding COVID-19 and budget constraints leading to some changes regarding coal royalties out of Queensland. Do you have a view regarding basically the current regime from WA? Basically, at what point in time should we expect - or if there is no change, when would we expect the next news regarding royalties or potential changes out of WA?

Elizabeth Gaines: I don't think any of us can predict when there might be changes. But it's been a very stable royalty regime for some time now. When the McGowan Government came into office nearly three years ago now, they've maintained what has been a very stable regime. I think what they're about is supporting growth through investment, not about through taxing.

So they know the investment program that we've got in place with Eliwana and Iron Bridge, which is US$4 billion or thereabouts of investment, creating 5000 jobs during construction and 1500 jobs once operational. I think that's the key focus, is around jobs and job creation. They'll achieve higher royalties by us successfully delivering on Iron Bridge with a higher-grade product. So, I think it's less about changes to what's been a well-understood royalty regime, and more about growth and investment and job creation.

Bernard Gresser: (Infinitas Asset Management, Analyst) Thank you.

Operator: There are no further questions at this time. I'll now hand back to Ms Gaines for closing remarks.

Elizabeth Gaines: Thanks, Ashleigh. Thanks, everyone, for participating in today's call for the Q3 results. I think you know, we're very pleased with those results. We're very focused on delivering a strong finish to FY20 and, importantly, making sure we do that safely and that the health and wellbeing of our team members is our number one priority. Thanks very much.

End of Transcript